

# INSTANT INSIGHTS

March 20, 2025

## Two Cuts Still On The Table For 2025

The Federal Open Market Committee (FOMC) kept rate projections unchanged but increased inflation projections and reduced growth projections for 2025. The central bank also acknowledged growing uncertainty in the economic outlook, while scaling back quantitative tightening (QT).

We believe rate cuts will remain on the table for later this year. However, with the potential for continued policy uncertainty, we believe fixed income investors need to be diligent, prioritizing security and sector selection.

### TWO RATE CUTS STILL ON THE TABLE FOR 2025

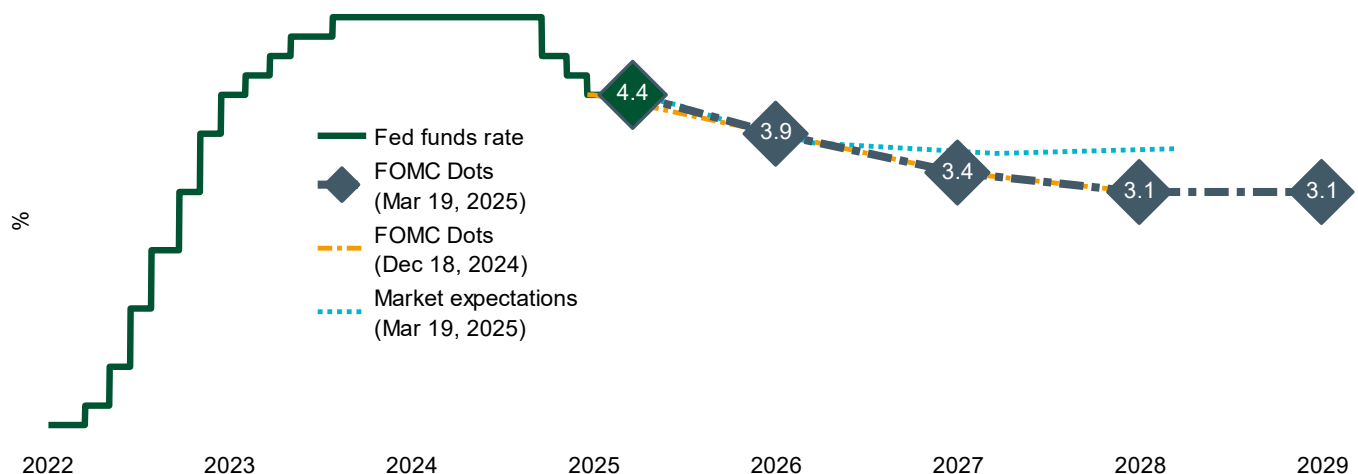
The FOMC announced a slowdown in QT. Effective April 1, the Federal Reserve (the Fed) will allow a limit of \$5bn in Treasuries, down from \$25bn per month to “roll off” its balance sheet. However, it left its cap on agency mortgage-backed securities (MBS) unchanged at \$35bn.

Meanwhile, its quarterly summary of economic projections reflected higher inflation and lower growth forecasts for 2025.

The FOMC forecasts headline and core inflation at 2.7% and 2.8%, respectively, at the end of this year, both up from the 2.5% forecast in December. It also projected GDP at 1.7% this year, down from the previous 2.1% forecast. Despite these adjustments, the FOMC kept its unemployment projections largely unchanged.

On balance, the committee made no changes to its median “dot plot” projections of future federal funds rates (Figure 1).

**FIGURE 1: THE FOMC PROJECTS A SLOWER PATH OF RATE CUTS<sup>1</sup>**



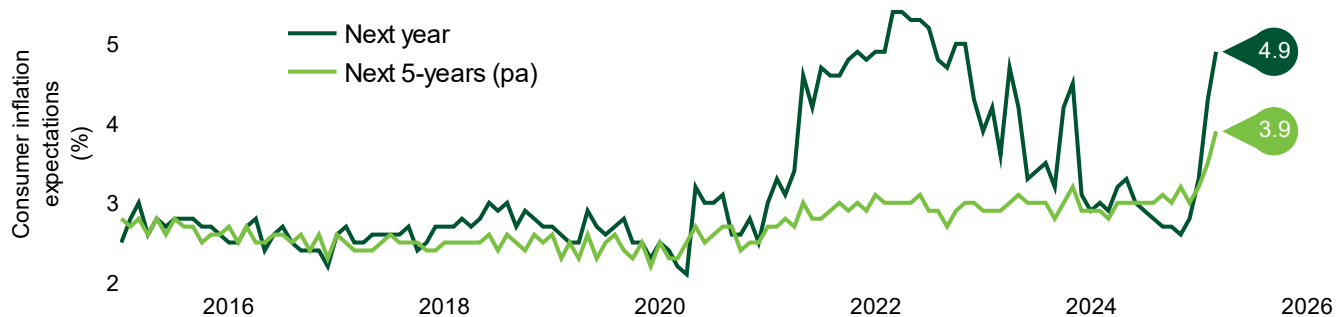
Charts are provided for illustrative purposes only.

<sup>1</sup> Federal Reserve, Bloomberg, Insight, March 2025

## THE FED ACKNOWLEDGES TARIFF-RELATED UNCERTAINTY

The central bank's official policy statement noted, "uncertainty around the economic outlook has increased". Chair Powell acknowledged uncertainty around tariffs and noted the committee considered them in its forecasts. Powell also noted the rise in near-term inflation expectations among consumers (Figure 2), but that the longer-run inflation expectations remain "well anchored" based on the totality of data.

**FIGURE 2: CONSUMER INFLATION EXPECTATIONS HAVE CONTINUED TO RISE SHARPLY <sup>2</sup>**



Charts are provided for illustrative purposes only.

## WE BELIEVE THE FED WILL REMAIN BIASED TOWARD CUTTING RATES

We believe that two rate cuts in 2025 remain a sensible base case.

Although the Fed has increased its inflation outlook, Powell noted the central bank's current position is that the impact of tariffs will be "transitory". In our view, the Fed may be more sensitive to any signs of consumer sentiment feeding through into labor market conditions.

With uncertainty and volatility potentially a continuing consideration, we believe that fixed income looks attractive. In our view, rigorous sector and security selection could be particularly important.

<sup>2</sup> University of Michigan, Macrobond, Insight, March 2025

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